



COMMONWEALTH OF VIRGINIA

Department of the Treasury

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August 22, 2008

MEMORANDUM

TO: Local Issuers Interested in Participating in Subject Sale

FROM: Richard A. Davis
Public Finance Manager

SUBJECT: Virginia Public School Authority ("VPSA") School Financing Bonds
(1997 Resolution) Series 2008 B

Attached herewith is a preliminary debt service schedule showing estimated debt service on your local school bond. **Please note that the interest rates shown on the enclosed schedule are estimated rates. The interest rates for your bond will be based on market interest rates at the time of the sale. Those rates cannot be determined at the present time.** Copies of your estimated debt service schedule are also being e-mailed to your bond counsel noted on your application form. The draft of the Bond Sale Agreement ("the BSA") can be found on the Department of Treasury website on the Internet at the address listed below. The BSA and Appendix D thereto are to be filed with VPSA at the address indicated in the BSA no later than **October 10, 2008. Please utilize an overnight delivery service to ensure timely delivery.** A final debt service schedule will be provided after VPSA's bonds are sold on or about October 22, 2008. **The closing date will be on or about November 20, 2008.**

The electronic information package, including all form documents, is available at the Department of Treasury home page on the Internet at:

http://www.trs.virginia.gov/Debt/vpsa_bondsaleagrmt.asp

VPSA structures its financings to purchase each locality's local school bonds for a price substantially equal to the amount of proceeds the locality has requested. This method of structuring is intended to assure that the purchase price VPSA pays will finance projects adequately and at the same time accommodate the range of possible loan maturities and amortization schedules within the participant pool. As in prior transactions, actual market conditions will be evaluated in the pricing and sizing of the transaction and VPSA expects to resize, to the extent permitted, the par amount of local school bonds on the VPSA sale date. For example, if a locality's requested loan maturity and amortization schedule results in a local

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school bond that is valued at a price of par plus a premium, VPSA intends to reduce the par amount of such bond to the extent required to provide proceeds approximately equal to, but not less than, the amount of proceeds requested. Conversely, if a locality's requested loan maturity and amortization schedule would result in a bond that is valued at a price of par less a discount VPSA is willing, at your request, to increase the par amount of such bond to an amount required to generate the proceeds requested. To do so the locality must authorize additional bonds in excess (up to 5%) of the amount of proceeds requested.

In general, VPSA expects to downsize the par amount of bonds with relatively more rapid amortization schedules (shorter maturities, level principal) and to upsize the par amount of bonds with relatively slower amortization schedules (deferred principal, longer maturities, level debt service). **Because VPSA cannot predict the coupon structure of the winning bid, VPSA is requesting that each locality authorize a "not to exceed" or "up to" principal amount of bonds that is sufficiently in excess of the amount of proceeds requested. If a locality's bond structure results in a discount purchase price and no additional bonds have been authorized in excess at the proceeds requested, the resulting purchase price paid will reflect the discount and result in a purchase price less than the proceeds requested.**

The Bond Sale Agreement and resolution anticipate this sizing approach. First, in the header section on the first page of the Bond Sale Agreement there are two line entries for dollar amounts. The Maximum Authorized Par Amount should equal the Proceeds Requested plus a cushion of up to five (5%) percent. VPSA and its financial advisor will be pleased to assist you in quantifying an appropriate cushion. Second, the Bond Sale Agreement and bond resolution do not include a purchase price parameter as a percentage of par. Rather, the purchase price is to be "substantially equal" to the proceeds requested except in the cases where issuing at the maximum authorized amount would not be sufficient to generate the proceeds requested. In instances where a discount would be paid, bracketed language is included in the bond resolution for a minimum purchase price parameter as a percentage of proceeds requested; if such a figure is required the locality and its bond counsel should consult with VPSA and its financial advisor in developing the parameter. An acknowledgment relating to the possibility of receiving a discount is included in the Bond Sale Agreement. Third, the resolution includes certain recitals (there are similar acknowledgments in the Bond Sale Agreement) which explain sizing adjustments and VPSA's objective to pay a purchase price that reflects the market value for the local school bonds.

The Local Issuer transcript delivery requirement has recently been modified in the Bond Sale Agreement. Counsel for Local Issuers are now required to send one original transcript to Sidley Austin LLP.

Please ensure that the minutes for any resolution/ordinance taken by your school board and board of supervisors/council list, by name, each board/council member voting, and the member's vote (or abstention). The Virginia Supreme Court in Town of Madison v. Ford held

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that the minutes of the town council's meeting stating that all members were present and that the motion to adopt ordinance carried unanimously were **insufficient** to comply with Article VII, Section 7 of the Virginia Constitution. That provision states, "On final vote on any ordinance or resolution, the name of each member voting and how he voted shall be recorded." The forthcoming Bond Sale Agreement resolution forms will accommodate this requirement.

At the VPSA Board meeting on September 11, 2008, the Board will consider approval of the applications received from localities interested in participating in the financing. Applications are being reviewed and approval of funding amounts is expected on that date. If approved, localities and their counsel will be notified of their anticipated funding amount. If not approved, you will be notified as soon as possible following the Board meeting. If you have any questions about the BSA, or need assistance, please call me at (804) 225-4928, Connie Vaughan at (804) 225-2268 or Melissa Palmer at (804) 225-4926.

RAD:mwp
Attachments

c: A. Francis Robinson, Jr., Esq.
 Sidley Austin LLP
 Matthew M. Hughey, Esq.
 Sidley Austin LLP
 John J. Conrad
 BB&T Capital Markets